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BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS NORTHERN GROUP
AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-12-0348

STAFF'S BRIEF

I. INTRODUCTION.

Arizona Water Company ("AWC" or "Company") is an Arizona Class A public service corporation engaged in providing water for public purposes in portions of Cochise, Coconino, Gila, Maricopa, Navajo, Pima, Pinal, and Yavapai Counties, Arizona. At the present time, the Company operates three groups of water systems, the Northern, Eastern and Western Groups, that serve approximately 84,800 customers.¹ AWC filed an application for a rate increase in the in the above captioned matter on August 1, 2012 for utility service provided by its Northern Group systems, which includes the Navajo (Lakeside and Overgaard) and Verde Valley (Sedona, Pinewood and Rimrock) water systems. Together, the Company's Northern Group of water systems served approximately 19,700 customers at the end of the test year (December 31, 2011) used in this application.²

The Company initially requested a rate increase of \$2,829,777 over its test year revenues of \$10,124,656 for a total revenue requirement of \$12,954,433. The amount of increase will result in an operating income of \$36,045,843 or a 28 percent rate of return on its adjusted original cost rate base which is being used as its fair value rate base for purposes of this proceeding.

¹ AWC Rate Application at 1.

² *Id.* at 2.

1 The Commission established the current rates for the Northern Group in Decision No. 71845
2 (August 25, 2010). In Decision No. 66400 (October 14, 2003), the Commission established an
3 Arsenic Cost Recovery Mechanism ("ACRM") for the Northern Group in order to facilitate
4 compliance with a new federal mandate to reduce arsenic levels allowed in drinking water.³

5 Prior to entering the settlement agreement with AWC, Staff recommended a rate increase of
6 \$1,923,872 over Staff's adjusted test year revenues of \$12,180,481. Staff's pre-settlement revenue
7 requirement recommendation results in a total operating income of \$2,848,552 or a 7.9 percent rate of
8 return on Staff's adjusted original cost rate base of \$36,057,615.

9 On March 13, 2013, Staff filed a notice of settlement discussions. The parties of record
10 subsequently held settlement discussions starting on March 19, 2013 and the agreement that the
11 parties reached was filed on April 15, 2013. The settlement resolves all outstanding issues between
12 Staff and the Company. The settlement agreement adopts a \$2,240,329 rate increase over adjusted
13 test year revenues of \$10,256,611 for a total revenue requirement of 12,496,939. The settlement
14 likewise adopts a total operating income of \$3,044,018 for an 8.44 percent rate of return on adjusted
15 original cost rate base of \$36,045,295. Additionally, the agreement adopts the Staff recommended
16 rate design.

17 Although the Residential Utility Consumer Office ("RUCO") did participate in the settlement
18 discussions, it was not a signatory party to that agreement. However, there are only three main points
19 of dispute between the signatory parties and RUCO in this case: whether a System Improvement
20 Benefit mechanism ("SIB") should be adopted; whether the adoption of a SIB necessitates a
21 reduction to the Return On Equity ("ROE"); and whether an adjustment to the billing determinants to
22 reflect reduced customer usage prompts a reduction in the ROE.⁴

23 Staff supports the settlement agreement and urges the Commission to adopt it.

24 **II. DISCUSSION.**

25 The settlement agreement presents a number of benefits including a reduction in return on
26 equity from what the Company requested as well as the implementation of the Staff recommended
27

28 ³ Decision No. 66400 at 20-23.

⁴ Tr. at 21-22.

1 rate design. Likewise, RUCO has indicated that it only opposes three components of the settlement
2 agreement.

3 The settlement adopts a flat 10 percent return on equity. Likewise a noncontroversial 6.82
4 percent cost of debt is adopted. In conjunction with the use of the Company's actual capital structure
5 of 48.9 percent debt and 51.1 percent equity, this produces an overall weighted cost of capital of 8.44
6 percent. For purposes of rate base that the cost of capital is applied to, the settlement adopts a
7 \$36,045,295 rate base that is lower than both the Company's \$36,045,843 proposed and Staff's
8 recommended \$36,057,615 rate base.⁵

9 The settlement also represents a significant reduction in requested revenue requirement from
10 what the Company originally requested. AWC's original request for a \$2,829,777 increase in
11 revenue requirement amounted to a 28.0 percent increase. Staff's original recommendation of
12 \$1,923,874 represented an 18.8 percent increase in revenue requirement. The settlement ultimately
13 adopts a revenue increase that is between the divergent proposals at \$2,240,329 or a 21.8 percent
14 increase.⁶

15 The settlement agreement resolves several other issues as well. The Signatory parties agree to
16 permit AWC to complete the full consolidation of its Verde Valley system which includes the
17 Sedona, Pinewood and Rimrock systems.⁷ Likewise, the Signatories agree to the Company's Off-site
18 Facilities Fee as proposed in the Company's application and on the Company's Off-site Facilities Fee
19 Tariff Schedule in the form set forth on Exhibit 2 attached to the settlement.⁸ The settlement provides
20 that AWC receive authorization to implement an Arsenic Cost Recovery Mechanism ("ACRM") for
21 its Navajo and Verde Valley systems. Additionally, the Signatory Parties agree that AWC may defer
22 its costs associated with implementing and performing its Commission approved Best Management
23 Practices ("BMP") for recovery in a future general rate case, and that AWC should record such
24 deferral of costs.

25
26
27 ⁵ Exhibit A-1 at 1.

28 ⁶ *Id.*

⁷ *Id.* at 4.

⁸ *Id.*

1 Further, the Signatory Parties have a common understanding of whether the Monitoring
2 Assistance Program ("MAP") surcharge should continue. The Company currently has a tariff in
3 place for the MAP and it was the Company's intention to continue that for the systems that the
4 surcharge can be applied to. Staff is in agreement with the Company that it should continue.⁹

5 In spite of its many benefits, RUCO opposes the settlement agreement for three principal
6 reasons. RUCO has suggested that the SIB as proposed and ultimately adopted in a parallel AWC
7 rate case for its Eastern Group Docket No. W-01445A-11-0310 is unlawful. Further, RUCO has
8 taken the position that the SIB produces a risk shifting benefit to the Company's shareholders and so
9 RUCO argues that a reduction in return on equity is appropriate. In addition, RUCO disapproves of a
10 rate design measure adopted in the settlement agreement which amounts to a usage adjustment to
11 assist the Company in revenue recovery in the face of known conservation impacts to billing
12 determinants.

13 **1. Benefits of the SIB.**

14 The most prominent feature of the settlement that has generated disagreement by RUCO is the
15 adoption of a SIB mechanism. The Signatory Parties are proposing the same SIB mechanism that
16 was pending before the Commission for the Company's Eastern Group rate case.¹⁰ Specifically, the
17 settlement adopts whatever the Commission approves with regard to the SIB mechanism requested
18 for the Eastern Group proceeding as the SIB proposal for the present Northern Group proceeding. In
19 the recent June Open Meeting, the Commission approved a SIB mechanism for AWC's Eastern
20 Group.¹¹

21 The conditions of the SIB settlement, as it is ultimately approved by the Commission for the
22 Eastern Group, shall be applicable to the Navajo and Verde Valley systems in this case.¹² Company
23 witness Joel Reiker acknowledged the same understanding regarding the SIB in stating, "The parties
24 agreed early on in that negotiation that the SIB would stand on its own."¹³ When asked the
25 Company's position should the commission alter or deny the SIB in in the Eastern Group Phase II

26 ⁹ Tr. at 252-253.

27 ¹⁰ Docket No. W-01445A-11-0310.

28 ¹¹ *Id.* Phase II: ROO as amended.

¹² Tr. at 267.

¹³ *Id.* at 40.

1 proceedings, Mr. Reiker stated that they would accept that "the Commission can change the SIB... in
2 that docket, and still adopt all the material terms of this agreement...It was crafted by all the
3 attorneys in this case such that...the SIB lives or dies by itself."¹⁴

4 Nonetheless, AWC indicated its willingness to entertain further protections beyond those
5 already incorporated into the Eastern Group SIB under consideration by the Commission. For
6 example, the Eastern Group SIB did not include an earnings test as proposed for Commission
7 adoption. Under questioning by Staff counsel whether an earnings test were adopted in the present
8 case, Mr. Reiker stated on behalf of AWC that, "if that were to happen in this case, even though one
9 might be able to interpret that as a material change to the Northern Group settlement, sitting here
10 right now, I can't say... the company would have a problem with that, given that we are no strangers
11 to providing that kind of information."¹⁵

12 The SIB offers a number of benefits as well. Under questioning by RUCO why he thought
13 the SIB was beneficial to the ratepayer Mr. Reiker responded that "If you are recovering known and
14 measurable costs that are going to the benefit of the end user, then it is favorable because you are
15 benefiting all parties."¹⁶ AWC witness Pauline Ahern stated she believed it was important to adopt
16 the SIB because of the aging infrastructure that is a growing problem across the country and for the
17 Company that it will allow them to make necessary replacements that they could not otherwise
18 afford.¹⁷

19 There was discussion during the hearing of what type of mechanism is being established with
20 the SIB and whether it is a form of decoupling. Ms. Ahern stated that the "SIB is not a decoupling
21 mechanism...(t)he SIB mechanism is a means of reducing regulatory lag, reducing rate shock,
22 allowing the utility to put in infrastructure repair and replacement on a timely basis, on a gradual
23 basis, and to avoid a rate shock."¹⁸ Mr. Reiker stated the SIB unlike decoupling or the Distribution
24 System Improvement Surcharge ("DSIC") "is not a full cost recovery mechanism."¹⁹

26 ¹⁴ Tr. at 53.

27 ¹⁵ *Id.* at 97.

28 ¹⁶ *Id.* at 138.

¹⁷ *Id.* at 150-153.

¹⁸ *Id.* at 154.

¹⁹ *Id.* at 105.

1 Staff witness Steve Olea noted three major differences between the SIB and a DSIC. The first
2 is within the Tables 1 and 2 which outline the details of the eligible plant in each account and what
3 was actually replaced. The second was the efficiency credit which provides for a five percent
4 reduction to the SIB plant as a benefit to the ratepayers which the SIB possesses but not the DSIC.²⁰
5 The final one was that the SIB requires the Commission to approve plant additions.²¹

6 During the hearing there was some confusion regarding when the 12 month period prior to the
7 SIB's start would begin. Mr. Reiker opined that he "interpreted that to mean the most recent
8 quarter."²² However, Mr. Olea stated that "the 12 months begins from the effective date of the
9 order."²³ Upon further questioning, the Company agreed with Staff's interpretation.²⁴

10 RUCO has expressed opposition to SIB mechanisms, primarily asserting that RUCO believes
11 SIBs are not lawful.²⁵ Staff notes that the Commission has already approved the SIB proposed for the
12 Company's Eastern Group Phase II proceeding. In so doing, the Commission has weighed the
13 arguments suggesting that SIBs are not lawful and ultimately decided the Commission has the
14 constitutional authority to implement a SIB.²⁶ Nonetheless, RUCO persists in its position that the
15 principal deficiency in the SIB is that it represents piecemeal ratemaking.²⁷

16 Although these arguments have been presented to the Commission in the Eastern Group
17 Phase II proceeding, Staff summarizes again for the convenience of the Commission its view that the
18 basis for Staff's view that the SIB is legally permissible. First, the Commission has previously made
19 use of its ratemaking authority to implement novel mechanisms in response to various challenges.
20 For example, the Commission has approved the use of ACRMs in response to the extraordinary
21 capital cost of achieving compliance with Environmental Protection Agency arsenic contamination
22 standards. *See e.g.* Docket No. W-01445A-00-0962. RUCO in fact participated in the development
23 of the ACRM as was noted by the Commission in approving the first ACRM. Decision No. 66400
24 More recently, courts have upheld the Commission's ability to establish renewable portfolio

25 ²⁰ *Id.* at 308-309.

26 ²¹ *Id.* at 312-313.

27 ²² *Id.* at 211.

²³ *Id.* at 304.

²⁴ *Id.* 413.

²⁵ Docket No. W-01445A-11-0310 Phase II: RUCO Closing Brief at 4.

²⁶ Docket No. W-01445A-11-0310 Phase II: ROO as amended.

²⁷ Tr. at 370:7-18.

standards on the basis of the impact that energy resource diversity has on the rates paid by utility ratepayers. *Miller v. Arizona Corp. Comm'n*, 227 Ariz. 21, 27, 251 P.3d 400, 406 (App. 2011), rev. denied Sept. 20, 2011.

Further, the SIB comports with constitutional requirements regarding the finding of fair value rate base. The SIB adopted in the Eastern Group Phase II proceeding, and by reference in this proceeding provides for a schedule of information to be submitted with each request for a SIB surcharge implementation.²⁸ Not only can the surcharge not go into effect without Commission approval for each surcharge, the schedule provides information that will enable the Commission to update the fair value rate base and to determine the impact of the revenues (with the addition of the proposed SIB surcharge) on the Company's fair value rate of return.²⁹ Finally, the Commission may terminate the SIB at any time.³⁰³¹

Unconvincingly, RUCO disputes whether the information provided pursuant to such filings is meaningful. Astonishingly, during the testimony of Mr. Rigsby, RUCO suggests that the supplemental information provided by requiring an earnings test in addition to all the other informational filings, as was adopted into the Eastern Group SIB by the Commission, is not useful and consequently does not eliminate RUCO's concerns.

An earnings test, I suppose basically the company would provide us with financial statements trying to prove that. And I don't want to sound cynical about it, but if you think about that for a minute, it would almost be as if the company just made a filing here for a general rate case proceeding and we just looked at its financials and its application and said, okay, that's good enough for us. I mean, you know, there is no, there is no real scrutiny like you have in a test year. You don't have that opportunity for discovery or analysis that you have in a general rate case proceeding.³²

However, RUCO's dismissal of the efficacy of an earnings test is belied by the usage of the same procedures and mechanisms within ACRMs which RUCO helped to develop. The Commission has other standard procedural devices wherein it evaluates the financial performance of a utility outside

²⁸ Docket No. W-01445A-11-0310 Phase II- ROO at 19:12-19.

²⁹ As noted by Mr. Olea on behalf of Staff, the degree of scrutiny regarding plant installations pursuant to the SIB is greater than is typical even within a rate case proceeding. Tr. at 263-265; *See also* -Tr. at 59 (noting that the SIB filing materials fill a banker's box).

³⁰ Phase II SIB Settlement Agreement Exhibit A-1 paragraph 10.01.

³¹ Although summarized in this brief, Staff likewise incorporates by reference the legal arguments presented in Staff's closing brief filed in the Phase-II proceeding in support of the Commission's authority to implement a SIB, Docket No. W-01445A-11-0310, Staff Closing Brief filed April 29, 2013.

³² Tr. at 370:19-371:5.

1 the confines of a full general rate case such as during a rate review. Moreover, as indicated by Mr.
2 Reiker, the informational filings provided to support a SIB in many ways are more in depth than what
3 occurs during a full rate case.³³

4 RUCO has indicated that their principal concern is with “piecemeal ratemaking”,³⁴ however,
5 in reliance on *Scates v. Ariz. Corp. Comm’n*, 118 Ariz. 531, 578 P.2d 612 (App. 1978). As Staff
6 noted in its brief within the Eastern Group Phase II SIB proceedings, *Scates* centered its analysis on
7 Article XV, section 14 of the Arizona Constitution regarding the determination of fair value rate base.

8 “We . . . hold that the Commission was without authority to increase the rate without
9 any consideration of the overall impact of that rate increase upon the return of. . . [the
10 utility], and without, as specifically required by our law, a determination of. . . [the
utility’s] rate base.”

11 118 Ariz. at 537, 578 P.2d at 618.

12 As Staff further noted, the *Scates* court was careful to make it clear that a full rate case is not
13 required for every increase in rates. *Id.* The court noted that “[t]here may well be exceptional
14 situations in which the Commission may authorize partial rate increases without requiring” a full rate
15 case. Therefore, the case does not preclude the Commission from updating previous findings based
16 upon new information. *Id.*

17 The SIB accounts for the *Scates* case by requiring AWC to supply such information.³⁵ There
18 has been no reason offered why to presume that the Commission will not appropriately consider such
19 information when evaluating each SIB surcharge filing. Rather, RUCO appears to be suggesting that
20 even if the Commission considers the information, the information is not meaningful.³⁶ This view is
21 not supported by the evidence in this proceeding which amply demonstrates that the information
22 provided will be meaningful as it is the same type of information required under the ACRM.³⁷

23 **2. Benefits of the Usage Adjustment.**

24 Staff recommends that there be an adjustment made to the residential and commercial billing
25 determinants to reflect a 5% decline in usage. This Declining Use Adjustment (“DUA”) provides

26 ³³ *Id.* at 59:2-20.

27 ³⁴ *Id.* at 370:10-18.

³⁵ Phase II- SIB Settlement Agreement Exhibit A-1 § 7.

28 ³⁶ Tr. at 370:19-371:5.

³⁷ *Id.* at 96:19-25.

1 that "if you have a known and measurable decline in customer usage and you reasonably expect that
2 decline to continue during the period that new rates are in effect, that you need to account for that
3 decline, and an adjustment was warranted."³⁸ Staff believes that even though the Company can
4 demonstrate a declining use higher than the 5% they have agreed to that number for the purpose of
5 settlement. Further, Staff believes that the record in this case demonstrates that declines in usage are
6 occurring and can be reasonably expected to continue to occur.³⁹ Moreover, the testimony at hearing
7 was that if the Company's projections are correct, AWC will continue to under-recover even with the
8 DUA.⁴⁰

9 The conservation efforts caused by tiered rates, efficient appliances, landscaping, economy,
10 and BMPs have had an effect on the Company's ability to recover their cost of service. RUCO
11 expresses concern that the company will over-recover with the DUA in place. Should that occur it
12 would be addressed in no more than five years because the SIB requires the Company to have a rate
13 case within that time. Mr. Reiker stated however that "over the past 16 years...we haven't recovered
14 our cost of service in any one of those years..."⁴¹ The DUA is an appropriate adjustment to allow the
15 Company a better opportunity to recover their costs of service in light of the known pattern of
16 reduced usage by customers.

17 Ms. Ahern testified that a pro-forma adjustment does not reduce the risk to the Company.
18 "Part of the problem is the way the general rates are...designed in the water business. Water utilities,
19 most utilities, they are not designed to recover the full cost of service or there has been an imbalance
20 between volumetric and fixed costs."⁴²

21 Staff agreed to this adjustment because,

22 "the Commission for many years has been doing tiered rates. They also are now doing
23 BMPs...all with the purpose of doing conservation. Every article that I have read on
24 the issue says...that water use is declining. The purpose of the tiered rates is to
25 promote conservation. The purpose of the BMP is to promote conservation...If you
are going to use BMPs, if you are going to use tiered rates, and you assume that they
are going to work, then you are going to assume there is going to be less water usage.

26 ³⁸ *Id.* at 46.

27 ³⁹ Exhibits A-4, A-6 and A-13.

⁴⁰ Tr. at 53-55.

28 ⁴¹ *Id.* at 95.

⁴² *Id.* at 176.

1 So I think it is not unreasonable to believe that the tiered rates [and] the BMPs are
2 going to cause customers to use less water. If you know that going in, then you have to
make some adjustment for it. And that's what we did here."⁴³

3 It is Staff's contention that inverted tier rates, BMPs and the various other measures ordered
4 by the Commission to encourage the efficient use of water resources are working. However, "there
5 comes a point where, even though you might not be able to prove something, you have to realize that
6 something is working...Staff feels comfortable with the 5 percent. But it is not known and
7 measurable. And if you are going to make it known and measurable, then you are going to make it
8 zero."⁴⁴

9 **3. The Settlement Return on Equity is Appropriate.**

10 It is the opinion of the signatory parties that the ROE should be set at 10 percent regardless of
11 whether there is a SIB. While RUCO objects to the SIB they have taken the position that should the
12 SIB be adopted by the Commission that the ROE should be reduced by fifty basis points. As outlined
13 by Ms. Ahern the SIB "[t]heoretically, you might reduce the volatility of the revenues to a certain
14 degree...but it doesn't translate to a reduction in the cost of equity."⁴⁵ A mitigating factor that
15 gravitates away from adjusting ROE is the five percent efficiency credit within the SIB which Ms.
16 Ahern indicated provided the ratepayers a benefit.

17 Ms. Ahern elaborated on her divergence from RUCO's opinion on the ROE and the effect of
18 the efficiency credit stating "Implementing a SIB doesn't change that rate base, it doesn't change the
19 revenues, and it doesn't change other operations at all. Therefore, the risk of that rate base that's
20 already in place doesn't change."⁴⁶ Based on her consideration of Exhibit A-15, her conclusion was

21 "if decoupling mechanisms don't have an effect on credit risk and don't have an effect
22 on common equity, investors' perception of risk because they affect a greater degree of
23 revenues, how much less is, rhetorically, the SIB or the 5 percent or the declining
usage adjustment going to have on the risk of that rate base?"⁴⁷

24 Likewise, the idea that the Company is shifting the risk to the ratepayers with the SIB and
25 tying that to the ROE is inaccurate because "you can't just shift risk to a third party who has no stake

26 ⁴³ Tr. at 249-251.

27 ⁴⁴ *Id.* at 260-261.

⁴⁵ Tr. at 158.

28 ⁴⁶ *Id.* at 159.

⁴⁷ *Id.* at 165.

1 in the investment..."⁴⁸ As Mr. Reiker elaborated, the "ratepayers aren't the investors, the company is,
2 and therefore you can't shift that risk from the company to the ratepayers..."⁴⁹

3 When the Commission has eliminated an adjuster mechanism in the past, at least for AWC, it
4 has not increased ROE in conjunction with the termination of the adjuster. Although the SIB is not
5 an adjuster mechanism, the example is apposite because the risk-shifting arguments RUCO presents
6 are the same as would be presented to oppose an adjuster. Carrying RUCO's position to its logical
7 conclusion, it would be reasonable to anticipate that RUCO would argue that increasing ROE would
8 be appropriate in the event that an adjuster were eliminated. That has not been the case, however.⁵⁰

9 So it would seem reasonable that there would not be a subsequent reduction when adding an
10 adjuster, particularly when that adjuster was factored into the evaluation of an agreed upon ROE.⁵¹
11 This was further confirmed by Mr. Rigsby as he did not believe the Commission has increased the
12 ROE when it has removed an adjuster.

13 Staff believes as testified by Mr. Olea that a ROE of 10 percent is appropriate in conjunction
14 with the SIB. Staff also believes that the efficiency credit built into the SIB provides for any
15 adjustment that might be otherwise needed. RUCO's contention that the ROE needs to be lowered
16 because of the SIB should not be considered because of that built in protection for the ratepayers that
17 alleviates any perceived rate shifting.⁵²

18 Staff does not believe that there should be a drop to the ROE and have the efficiency credit; it
19 should be one or the other. In this situation, Staff believed the best option was the efficiency credit.
20 "Staff has been stating this since day one, if you are going to have the SIB, there has to be some type
21 of monetary benefit to the ratepayers. And you can do it by lowering the overall ROE. You can do it
22 by the efficiency credit, which is basically lowering the ROE to the actual SIB plant. Staff feels it is
23 more appropriate to lower it to the actual plant that's involved in the SIB because ... that's a more
24 direct application of the effect on the ROE."⁵³

25
26 ⁴⁸ *Id.* at 86.

27 ⁴⁹ *Id.*

28 ⁵⁰ Tr. at 367-368.

⁵¹ *Id.* at 90-91.

⁵² *Id.* at 248.

⁵³ *Id.* at 262.

1 The DUA gives AWC a better opportunity to earn the ROE, but does not reduce risk. Earning
2 the ROE is not guaranteed even if its expenses are reduced.

3 The recent issuance of a Recommended Opinion and Order ("ROO") by Judge Nodes in the
4 Eastern Group Phase II proceeding may have encouraged RUCO to advocate for the ROE in this case
5 to be lowered by a similar 50 basis points. Notwithstanding that the Commission ultimately amended
6 the ROO to eliminate that aspect from the Decision, the circumstances are not entirely identical for
7 other reasons explained by Staff.


8
9 "I think in this case Staff considered everything, including the ROE, and came up with
10 the 10 percent ROE along with the SIB. That doesn't mean that we didn't think that
11 the... ROE would have been higher without the SIB. I am saying that the two cases
12 that we have are completely different. The Eastern Group you had an ROE already
established...In this particular case Staff considered everything together at once, not
separately. So Staff believes, with everything considered together, the ROE should be
10 with the SIB."⁵⁴

13 For that reason, "Staff believes that what it has given the Commission in the settlement agreement is
14 fair, just, and reasonable for the company and for the ratepayers based on all of the pieces that are
15 contained in the settlement agreement."⁵⁵

16 **III. CONCLUSION.**

17 For all the above stated reasons, Staff requests that the Commission adopt the settlement
18 agreement as proposed because it provides a balanced outcome that is in the public interest.

19 RESPECTFULLY SUBMITTED this 18th day of June, 2013.

20
21 

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28 ⁵⁴ *Id* at 270.

⁵⁵ *Id.* at 284-285.

1 Original and thirteen (13) copies of
2 the foregoing filed this 18th day of
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3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
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7 Copy of the foregoing mailed this
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